RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

Since 1958 •

Post Office Box 1759, La Jolla, California 92038

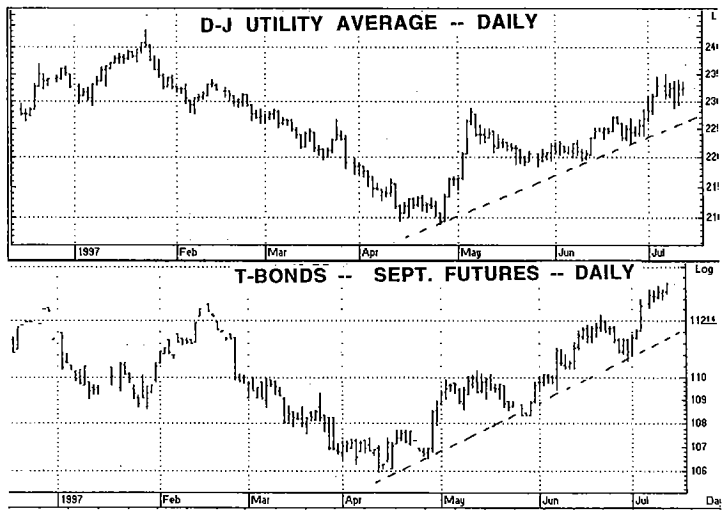
26 Letters Per Year • $250 annually

July 16, 1997 **LETTER 1230**

July 3 DJIA 7895.81; PTI 4957; A-D Ratio +7.49
July 11 DJIA 7921.82; PTI 4975; A-D Ratio +8.31
Dow Yield: 1.63%; Dow Price/Earnings: 21.2
Dow 144-day MA: 7051; Dow 34-day MA: 7649
Dow Times Book Value: 5.92; PTI 89-day MA: 4870
Percentage of Undervalued Blue-chips: 5%
Gold 144-day MA: 358

THE RUMOR making the rounds (and it's being taken very seriously) is that a contingent of Fed governors are increasingly worried about **deflation,** and they feel that to offset deflationary forces the economy must be kept moving above normal requirements. Giving credence to the Fed's worries, metals and commodities across the board have been weak, retail sales have declined for three months running, corporate pricing power continues to be weak, producer prices are down 3.9% for the year, and inventories are building.

THE MARKET: What's the best technical argument for a continuation of higher prices on Wall Street? It could well be the chart (right) showing the D-J Utility Average and the T-bond futures. Over the years I have included many studies of the joint action of the utilities and bonds. As a rule, when BOTH of these averages rise together they exert a very bullish force, and, with few exceptions, they take the market UP with them. Conversely, when BOTH the bonds and utilities decline together, with few exceptions, they will take the rest of the market down with them (note that on July 2 the Utility Average rallied above its previous peak). So -- it's obvious that neither the bond market nor the utilities see inflation ahead.



What's the best argument for a market stall-out (trading range) or for a market decline? I'd have to say it's simply extreme overvaluation, extreme optimism, and the fact that this market continues to be the most uncorrected market in Wall Street history. However, it is well to remember that this has been the case for the last few years and none of these have halted the stock market's climb.

There's another thought that I want to introduce here. The D-J Industrial Average has really been the "engine" of this bull market -- certainly the Dow has been the engine ever since 1982. From its 1982 low of 776.92, the Dow advanced to last week's high of 7962.31, an increase of just under 1,000%.

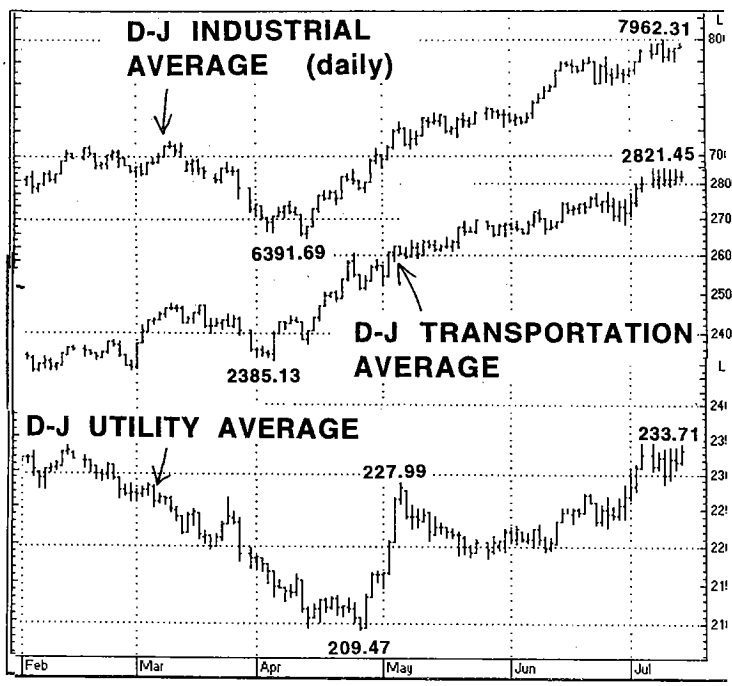
When this market finally runs into real trouble, my bet is that it will be triggered by the **Dow before anything else.** In other words, I expect it will be the Dow that will signal the end of this amazing bull market. The Dow, the "market engine," will tumble first, and everything else will follow.

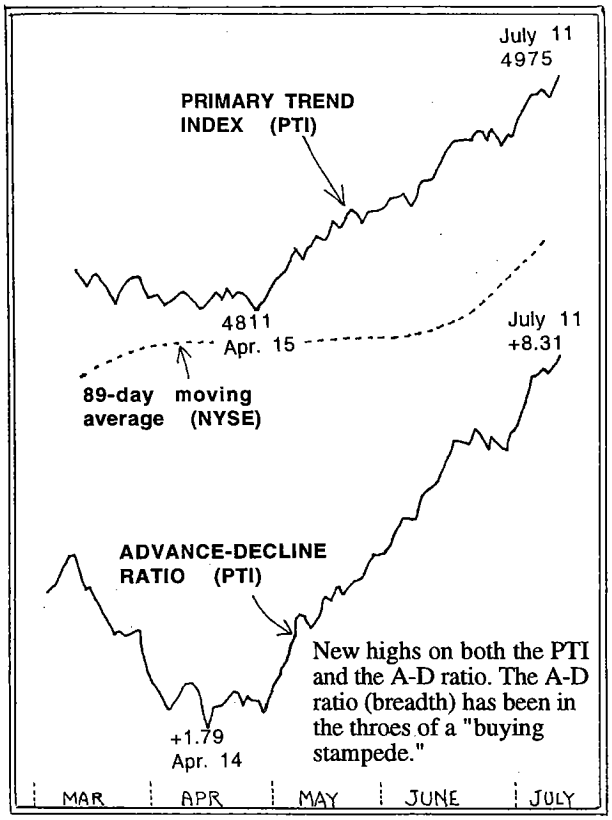
I'm aware that at classic bull market tops, the mass of stocks, as characterized by the advance-decline ratio, tend to top out first -- even while the Dow continues to climb (and the Dow will often climb for three to six months after the A-D ratio tops out). But I believe that this time we will see the **trouble signaled first by the Dow** -- the A-D ratio and everything else will follow.

Question: I continue to get the following question from frustrated bears and euphoric bulls: "Russell, this bull market just keeps advancing, surging, rising. What or how do you think it will ever end?"

Answer: I've written this before, and I'll repeat it: I liken this market to a stair-climber who continues to climb higher and higher -- and the higher he climbs the more fearful he is of looking down. If he looks down he's afraid he'll lose his balance and fall, so he keeps running up those stairs. By the same token, I expect that this bull market will keep advancing -- up and up until the buyers are totally exhausted.

The end won't come on a news event, the end won't be signaled by some technical signal or a non-confirmation or an announcement by the Fed; no, the end will come as THE MARKET TOPPLES OVER AND FALLS OF ITS OWN WEIGHT. Once toppling over (at which point the primary trend will simultaneously turn down), I expect the ensuing bear market decline to be as relentless and persistent as has been the rise since 1990 (I don't expect a crash, but rather a stubborn, day after day, seemingly unending decline).





There you have it -- the Russell view of things to come.

DIFFERENT?: Here's the question every serious market student has to be asking himself: **"Is this bull market really different?** Forget all the New Era talk and the TV hype -- but IS THIS MARKET REALLY DIFFERENT FROM ANY PREVIOUS BULL MARKET IN WALL STREET HISTORY?"

There are two ways of answering that question. The first -- yes, this market differs from bull markets of the past in that it has set a large number of impressive and **never-seen-before records.** Almost all of these records have to do with either **valuations** or the **refusal of the market to correct.**

What kind of records am I referring to? Here are a few of them. **(1)** The Dow has not closed below the low of a preceding year since 1982, an unprecedented span of 15 years. **(2)** The Dow has not undergone as much as a 10% correction on a closing basis since 1990, an unprecedented span of seven years. **(3)** The yields on the Dow and the S&P have dropped to never-before-seen lows below 2% and actually into the 1.63% area. **(4)** The S&P 500 is selling at 126% of sales, the highest price-to-sales ratio in stock market history (thanks to Ned Davis for this statistic). **(5)** The Dow has recorded 215 new highs over the past six years. This surpasses the record of 212 new highs set in the six years ending September 3, 1929. **(6)** The Dow has increased ten-fold in the 14 years from August 1982 to July 1997. This ten-fold increase from a major bottom has only occurred three times previously, but in each of the previous cases it has taken 21 years or more to do it. **(7)** The Dow increased a combined 68.2% during 1995 and 1996. There have been nine previous instances when the Dow increased a combined 55% or more within two years. Every one of these two-year "explosions" has been followed by a correction or a bear market in the third year. This year, 1997, is a third year. But so far -- no correction. **(8)** Turning to the "Decennial Pattern," going back to late 1800s, somewhere during every combined sixth and seventh year period, there has been a correction. But the years 1996-1997, so far, have progressed without a correction. **(9)** As of the end of June, the S&P 500 has been up 31 out of the previous 40 months. Only twice before in stock market history has the S&P risen more than 29 out of 40 months -- the two previous instances: February 1937 and April through August 1961. Check your chart books for the aftermath of these two. **(10)** The total value of all US stocks is now approximately $9 trillion. This equals 115% of the US Gross Domestic Product. This compares with peak ratios of 81% at the 1929 high and 78% in November '66 and again in December '72.

So again, we must ask the question, is this market "different?" And the answer is that it is different in these respects -- no major bull market in history (and I take this bull market as having started in late-1974) has been this "uncorrected." And no bull market in history has taken stocks this far above "known values."

Of course, you can come up with all sorts of reasons why the action in this bull market has been "different." There's the widespread use of computers, the arrival of instant communication, program trading, the globalization of the markets, and, of course, the mass entrance of the public via thousands of mutual funds.

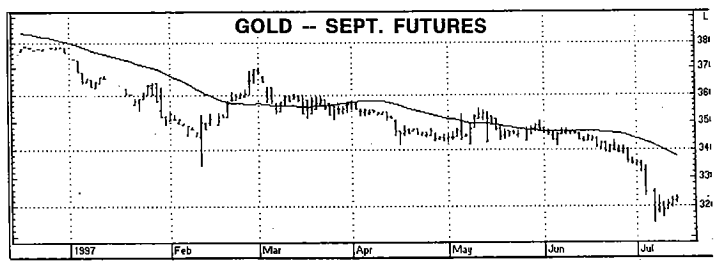
But from another standpoint, this bull market is not that different. This bull market, like all others before it, is still a product of **supply and demand.** And it is still a function (at the extremes) of **greed and fear.**

So my own feeling is that we won't know whether this bull market is or was really different until after it ends. After it ends and the bear market that follows runs its course, we will be able to look back and decide whether this was indeed a fundamentally different bull market. Then we'll know whether this bull market was different than anything that has ever been generated on Wall Street or whether it was just an amazing bull market that avoided corrections and ignored valuations, year after year.

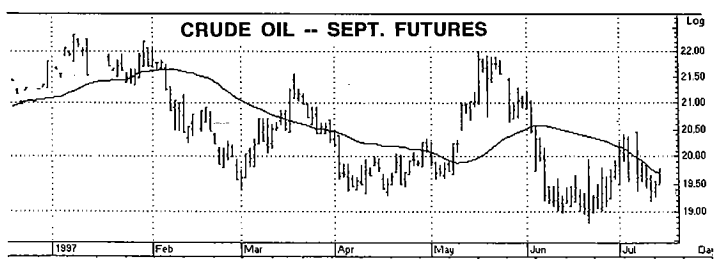
If, following this bull market, we have an extremely mild bear market, and then a new bull market is born, we will be able to say that "something new" has occurred. We will be able to say that because all stock market history tells us the BIG bull markets are followed by BIG bear markets.

So here we have the biggest bull market in history, the most uncorrected bull market in history, the bull market which includes the largest segment of the public in Wall Street annals. All history tells us that this bull market "should" be followed by a hair-curdling bear market. If that doesn't happen, then yes, something has indeed changed, and the law of action and reaction in the stock market has been suspended or negated.

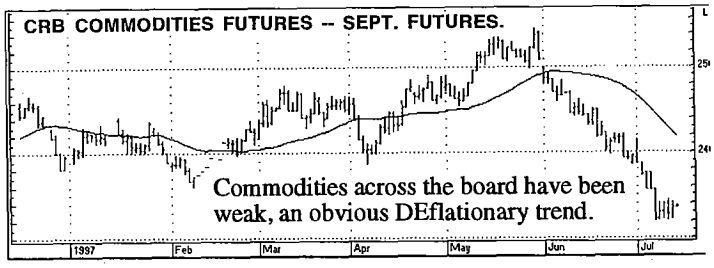
CHARTS: Continuing the deflationary thesis which I put forth on page 1, here are four charts that suggest that the Fed is warranted in worrying about **deflationary** tendencies in the economy. The first chart shows gold futures plunging below its 34-day MA. A deflationary picture.



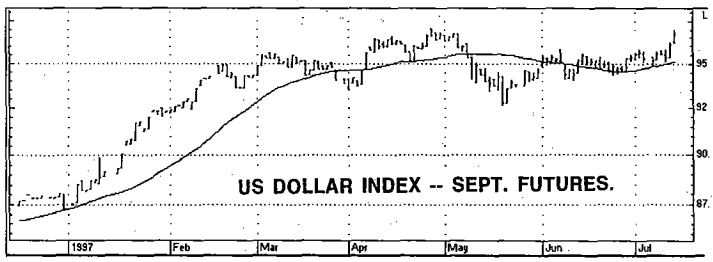
The second chart shows crude oil, which is often termed "black gold" (Sept. futures). Here we see crude fluctuating wildly, but currently below the 20 dollar level and below its 34-day MA. Oil is



a major factor in the inflation/deflation equation, and so far, there's no hint of inflation here.



Here's the US Dollar Index breaking out above its April 5 high to a new high, and its highest level in years. Strong bonds and a strong dollar -- the implications of both are **deflationary.**



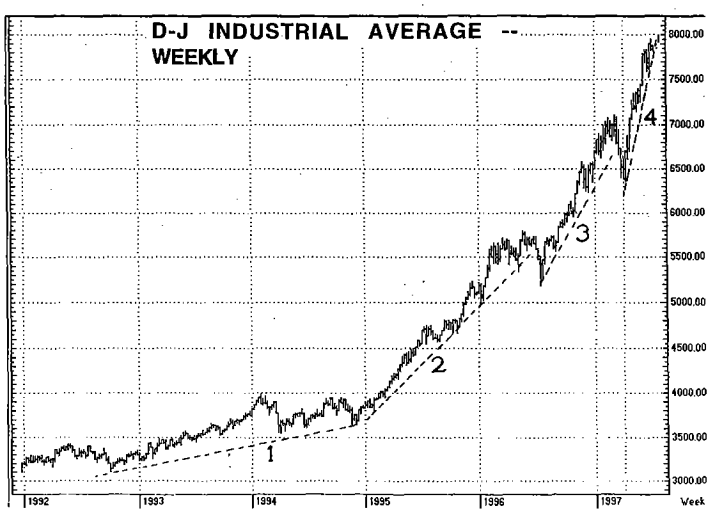
THE CHART: Dostoievsky said, "Be simple and rediscover the world." Maybe it would pay us to be simple and rediscover the stock market. At any rate, here's a simple arithmetic chart of the Dow going back to 1992.

I have drawn four rising trendlines, and you'll notice that each advance is steeper than the previous, suggesting that each advance has been more speculative than the preceding. The last rising trendline, which began at the April 1997 low, has gone **almost vertical.**

This latest trendline is fascinating in that I can't remember seeing one this steep before, at least not since I first started watching the market during the 1940s. Can this almost vertical rise continue? Ah, that's one of the fascinations of Wall Street -- how does it all start and how does it all end?

One thing is clear -- there's a "target" up there, and wherever that target is, this market is heading there in a hurry. The second half of 1997 should provide an abundance of surprises.

Note: Turning to the daily chart of the Dow as seen in the *Wall Street Journal*, the entire rise from the April low has assumed an interesting and perhaps significant pattern. Notice that the initial rise off the April low was lengthy, taking the Dow to the 7400 level. The second leg took the Dow to the 7850 level. The third leg took the Dow to the 8000 level, but each leg was **considerably shorter than the preceding.** It's possible that on the third leg which took the Dow (intra-day) above 8000, the Dow ran out of steam.



INVESTMENT POSITION: The bull remains in the box. It seems to me that this bull market has now taken on a **"life of its own."** How can that happen? Here's how -- prices go up and fund managers and institutions (with huge amounts of money coming in on a daily basis) feel forced to buy. As they buy, the market, and particularly the index funds, push higher. As prices advance, managers are forced to buy more, and thus, the round-robin continues. The cycle goes on and on -- until finally the whole edifice topples over.

Questions -- do you want to be in this kind of market? Do you have the guts to be or stay in this market? I can tell you that my PTI has been hitting new highs almost daily, but I can't tell you whether to join the parade. The Dow Theory is based on buying stocks when they are values and selling them when they are no longer values.

According to my studies, stocks are no longer values. I base this on dozens of measurements and ratios. But millions of people gamble at Las Vegas every year, and millions of people are buying stocks here. Remember, the market is a law unto itself.

I've been saying that bonds are a far better value than stocks in the area. I like government maturities from one year to five years, but it's your money, and your decision. The bull remains in the box, and he'll stay there until this market exhausts itself and begins to topple over.

NOTES & QUOTES: The "boom" is on, but it's restricted to a limited sector of the population. Currently, we're seeing the sharpest contraction in auto borrowing in five years. Visa USA has announced that personal bankruptcies for the first five months of '97 are up 25% over last year's 1.1 million bankruptcies. In the meantime, household liquidity (cash on hand as against total household debt) has dropped to the lowest level on record. Let me put it this way, a large segment of the population is in no shape to withstand even a mild recession.

* *

I keep saying that there's a big difference between the Consumers Price Index (CPI) and the actual cost of living. The difference in my own life has to do with TAXES, which the government conveniently leaves out in its CPI reports. Ned Davis reports that taxes as a percentage of GDP are close to the highest level in history, and they've been rising steadily under Clinton.

* *

Heart attack is the number one killer in the US. Since I have thousands of subscribers over the age of 45, and many of you will have heart trouble, I keep harping on this subject. OK, here we go. The British Medical Journal states that giving blood may decrease the risk of heart attack in middle-aged men. Men who donated blood at least once in every two years prior to the study had an 86% lower risk of heart attack in the ensuing five years than non-donors. A reduction of blood iron, said the Journal, may be responsible for the decreased risk. **Russell comment:** It is also thought that the reason that women have fewer heart attacks than men is that they lose blood periodically via menstruation (which would also mean reducing their body's level of blood iron).

Again, I turn to **chelation,** a therapy which **removes metals** (including iron, of course) from the system. For those subscribers who are interested, may I suggest that you write the American College of Advancement in Medicine, Box 3427, Laguna Hills, CA 92654 and ask for a list of chelation doctors (send 52 cents for postage). Or call (800)728-2288 and purchase the book, "The Chelation Answer." Chelation is not a treatment that your doctor will recommend (although, ironically, I have been at sessions where doctors are undergoing chelation themselves, without the knowledge, I'm sure, of their own patients).

* *

Items you may not be aware of regarding the potential "settlement" with the tobacco companies: (1) A key GOP staffer was quoted as saying, "This (agreement) will never see the light of day. Either it dies up here or it gets so changed it won't be recognizable." (2) It's the threatened tobacco industry, not the public health community, that has been pushing for a deal. (3) Why? Because health advocates have been winning major battles against the tobacco companies -- and potential class action suits have been launched nationwide. These suits, if won, could cost the companies countless billions of dollars, and they will continue. (4) The "deal" was put together in a highly secret manner by attorney generals, many of whom have high-profile aspirations. (5) The deal is for $368 billion. The lawyers stand to make billions on a settlement. Figure their take, say, at 1%. (6) The deal will ultimately serve to guarantee the future viability of the tobacco industry. (7) Irony, the US government is still giving subsidies to tobacco growers. (8) The deal has been described as "the tobacco industry giving billions of dollars to a lot of different players, and then returning to business as usual." (9) The deal must ultimately be approved by Congress, which is known to be friendly to tobacco. (10) From the standpoint of the tobacco industry, the core of the deal is that they will enjoy perpetual immunity. **Immunity** is the KEY. (11) The key for the anti-tobacco interests is this -- they want the FDA to be able to control nicotine as a drug. This will happen within about a dozen years.

Russell thought: The tobacco companies are almost surely giving up on cigarette smoking as a growth industry in the US. They are therefore turning to overseas, where smoking is booming. But the Russell bet is this: as the incidence of lung cancer starts escalating in Asia, Europe and Africa, these nations will emulate the US and also put strictures on smoking. US lawyers, in fact, are already heading overseas.

* *

London, Paris: The word is that London is sizzling while Paris is fizzling. The British pound is very strong, business in England is booming, and as *LA Times* columnist Adrian Wooldridge writes, "London is on a roll -- vibrant, upbeat, brimming with optimism. Paris, on the other hand, is sunk in the slough of despondency . . . The Paris property market, which went into a tailspin in 1992, continues to stagnate. Between the first quarter of 1996 to the first quarter of 1997, vacancy rates in Paris increased from 7.2% to 8%, and the capital value of property fell from $12,156 a square meter to $9,159 . . . Strolling the world's most romantic boulevards, you are more likely to run into throngs of unemployed youths, getting blotto on cheap wine, than you are to see star-crossed lovers."

So what's happening? Easy, Britain has followed the US global capitalism path, while France (with 13% unemployment) continues to cling to its "cradle-to-grave" and "let the government take care of us" system, a system which has frozen so much of Europe.

* *

Digital photography, now in its infancy, is coming in a hurry. Hewlett-Packard, the "king of computer printers," is entering the fight and directly competing with Kodak for digital cameras and all that they imply. Why is anyone interested in digital cameras? *Business Week* (July 7) provides the answer: "No more schlepping to the photo store. No more trips back for duplicate prints. And thanks to the global reach of the Internet, no more dropping those prize pictures into an envelope and forgetting to mail them to the relatives." **Russell comment:** Photography is fated to become a branch of the computer industry. You'll take pictures, show them on your TV, download them onto a floppy disk, or send them to your uncle in Paris via the internet.

* *

Is the world really changing? Better believe it. Here are a few quotes from the June 24 *Financial Times* about Mr. C. Naidu, chief minister of Andhra Pdrasesh, a backward state in India. "When Bill Gates visited India, Naidu flew to New Delhi specially to meet him. At a cocktail party, Naidu took Gates aside and showed him his laptop computer. Said Naidu, 'He was very happy with it.' Naidu clicks through a series of windows and up pops data on virtually any facet of his state; the level of coal stocks at each power station, the rate of math passes at a particular school, the daily depth of Andhra's water reservoirs. Mr. Naidu says he begins every day at his laptop, checking through information. 'Another year and I can make the system perfect,' says Naidu. 'We will respond to investment applications on the Internet. I will send reports on the economy to the world bank by Internet.'" **Russell comment:** And this is a backward state in India. Yep, the world is changing. The only thing that's not changing is human emotion -- for example, did you see the Tyson/Holyfield fight?

* *

If there's a way to sell it, Wall Street will find that way. The latest concept is Corrections Corporation of America (CCA), the largest US prison operator. CCA is to form CCA Prison Realty Trust, which is expected to be offered to the public this month at a price of $19 to $21 a share. Proceeds from the offering, set for $308 million, will go towards purchase of nine prison facilities which will be leased back to CCA. CCA stands to raise a huge amount of cash for its future expansion, as well as clean off these assets from its balance sheet. **Russell comment:** I've said this before, building prisons is a great growth industry in the US, and it will continue to be a growth industry as long as drugs are deemed illegal.

* *

The Fed has a lot of problems, not the least of which is Japan's recent warning to the US not to raise interest rates. What's wrong with the Fed raising rates? If rates are raised here, the dollar may move up against the yen. Japan doesn't want a weaker yen, because a weaker yen would discourage people from investing in the Japanese market. Also, Japan's beleaguered banks and insurance companies can't afford to see the value of their yen-based assets shrink. Their balance sheets are already far too shaky.

* *

Fads are always fascinating. Remember the craze for Llamas, which sold for up to $25,000 for a mating pair? Then it was ostriches, which sold for as much as $5,000 a pair. Emus, which are a smaller version of the Ostrich, also had their boom. But like tulips and Llamas, fads do die, as notes this sad commentary on Emus. By the way, I wonder what one of Di's dresses or Jackie's dinner plates will sell for, say 10 years from now?

COLLEYVILLE, Texas — Penned in and unable to escape, 22 emus were clubbed to death by a Texas man frustrated by his financial losses in breeding the once-valuable flightless birds, police said yesterday.

Sgt. Clyde Davis said police responded to a neighbor's call and found a pile of dead emus lying inside a trailer with more scattered around a pen.

Reed Young of the Humane Society of North Texas said a pair of emus, which once fetched thousands of dollars, are now worth about $200, because the market has become saturated.

"The owner told us he couldn't even take them to the slaughterhouse in this area, because the slaughterhouse already had all the meat and oil they needed," he said.

Associated Press

* *

When I was in the Army Air Force back in the '40s I prayed that I'd never have to bail out and trust to my two parachutes. Former President Bush seems to have no such fear, and on March 25 Mr. Bush bailed out just for the thrill of it. Bush was asked about the guidance he needed for the jump. He recalled his instructor telling him to pull the first cord, and if that didn't work, pull the second cord, which was his reserve chute. Finally, if the second chute didn't work, pull the third cord. At that point Bush asked, "Is that a reserve chute, too?" The instructor answered, "No sir, that third cord rings a bell in Al Gore's office, telling him to get ready for another state funeral." Bush jumped anyway.

* *

Microsoft: This from an article in the June 26 *NY Times*. Max Metral, who owns a small software company, described his visit to Microsoft. One of MSFT's top engineers looked over Metral's software and snapped, "We could do that in a week." Says Metral, "The reality of the software business today is that if you find something that can make you ridiculously rich, then that's something that Microsoft is going to want to take away from you. All we can do is meet with them (Microsoft) and try to see what

they're going to do to us when they feel like doing it. If they want to, they'll kill you."

* *

The latest legal drug of choice is **caffeine.** Millions of Americans are hooked on this mood-altering drug (that's right, caffeine gives you a "high," politely known as a "pick-up"), and many people (including my wife) swear they can't start the day without their coffee. Now kids are drinking various caffeine-laced drinks, and there's a Starbucks or some other coffee vendor on every street corner in every city. Here's the caffeine count based on 12-ounce drinks: Krank-O -- 71 milligrams of caffeine, Jolt Cola -- 71, Coca Cola Classic -- 47, Diet Coke -- 47, Dr. Pepper -- 40, Diet Pepsi -- 36, Starbucks coffee -- 147, espresso (2 ounces) -- 100, tea (brewed) -- 57, hot cocoa -- 14, decaf coffee (brewed) -- 5. **Russell opinion:** Coffee is a strong diuretic, I avoid it and all caffeine drinks, and caffeine drives me up the wall. I used to drink four or five cups of coffee a day -- I guess I'm allergic to it now.

* *

Southeast Asia? We read carloads of predictions about "booming Asia," and the massive consumer markets that await us there. But *13D Research*, Inc. [(208)726-1565] warns that a "boom bust in emerging Asia would have global implications for investment strategy." They continue, "Non-Japan Asia represents 24% of world GDP. Developing Asia has been growing three times faster than the rest of the world, and a sharp slowdown there could more than offset any small increases in economic growth in the rest of the world . . . Part of the current deflationary pressures come from Asia's large and growing excess manufacturing capacity. Asia traditionally responds to a slowdown in economic growth by aggressively boosting exports. Developing Asia's export prices were rising at a 10% annual rate in early 1995, but according to BCA's China Analyst, now are declining at a 4% rate. Asia is also reacting to the slowdown of export growth by focusing on higher value-added manufacturing. This will further heighten global competition in key high margin areas." **Russell comment:** For the last few years I've been warning that China and Asia would not only be a source of demand, they will be a huge source of supply. Furthermore, they are tough exporters, and they have low labor costs on their side. A slowdown in the Asia boom would mean an even larger flood of competitive goods coming to the US.

* *

Statistics: The average age of a Merrill Lynch customer, surprisingly, is 68. What does this tell us? It tells us that the great bulk of the nation's money is in the hands of the oldsters, while the bulk of the youngsters and Gen-Xers are in -- er, debt . . . The value of just two Dow stocks, GE and Coca Cola, is about $400 billion; this is bigger than the entire junk bond market . . . The value of GE, Coke, Exxon, Microsoft and Merck is $828 billion; this is surprisingly larger than the entire T-bill market, which is $720 billion . . . Last month Glen "Scotty" Wolfe died at the age of 88 in Redlands, California. Glen, it turns out, was married 29 times. Said his last wife, Linda Esses-Wolfe, "He did a lot of things in his life. It was exciting to be around him." And then there is boxer Evander Holyfield, who is no slouch. Evander has six children by six different wives . . . Americans are obviously worried about their anatomy, because the video series, "Buns of Steel" has sold an incredible 13 million copies . . . Japan Tobacco (the government owns 66% of its stock) states that 50% of adult Japanese men are smokers, the highest rate among developed nations . . . The Las Vegas Yellow Pages carries 104 pages of ads for "adult entertainers," exceeded only by 140 pages of ads for lawyers . . . Crime in NYC continues to decline; NYC is now safer than San Diego and 23 other major US cities. NYC homicides dropped 30% in the first half of '97, compared with the same period in '96 . . . The penalty in Saudi Arabia for murder, rape, or drug smuggling is death by public beheading. Last week the 59th criminal in Saudi Arabia was convicted for murder and beheaded.

* *

Real Estate: Inflation is taking place in apartment prices, at least it is in San Diego. Last week an apartment complex sold for $127 million, or $138,000 a unit. This breaks the old record of $120,000 set in 1986, and it is more than double the peak price set in some previous years.

* *

Hong Kong again: From Thomas Friedman, *NY Times* (July 1): "China has promised to treat Hong Kong as a special autonomous zone, preserving most of its old freedoms and all of its old capitalism. China has promised to maintain 'one country, two systems'. Let me make one prediction: 'One country, two systems' is not what is going to happen here. Either you will have 'one country, one system' and that system, over the long haul, will look more like Hong Kong than today's China, because Hong Kong is such a powerful model for every Chinese city. Or China, with its endemic corruption and absence of rule of law, will eventually overwhelm Hong Kong and will have what the British foreign policy writer John Chapman calls 'one country, no system'" . . . Margaret Thatcher last week asked how long will it be, now that Hong Kong is back in China's hands, before other Chinese cities start asking, "Why is Hong Kong different -- the same people, the same talents and abilities?" The only difference is that Hong Kong has the software of free markets, and the other cities don't . . . Meanwhile, Marc Faber who has lived in Hong Kong for years (he writes the famous *Doom, Gloom and Boom* report), believes that what China really wants is for Shanghai to be the financial center of China; Shanghai was the former "Paris of China." From what I hear from friends who have recently visited Shanghai, the building there is frantic and around the clock. One friend told me that all he could see from his hotel room was cranes in every direction.

* *

Singapore ("the world's most competitive economy") has been the model for a booming city run by a benign dictatorship. Now problems -- last week the Singapore stock index broke to a 2 1/2 year low. The reason is a slowdown in growth due to a rise in wages and business costs.

* *

Is anyone making money on the Internet? Dell Computer is (Dell is now the third largest computer company, surpassing Apple and Packard Bell NEC). Dell is currently selling $2 million worth of computers a DAY, thereby cutting out the middleman. Is this the wave of the future?

* *

Mercedes-Benz's long awaited sport-utility vehicle (ML320) has finally arrived. Here's how *USA Today* (July 2) started its review: "Straight to the point, the ML320 sport-utility vehicle is so much better than the competition that it's hard to imagine them staying in business if Mercedes had decided to flood the market instead of building just a few . . . Performance under all conditions was close to brilliant." The new vehicle will be for sale in September, the price starting at $35,000.

* *

Gambling is illegal, so is it legal to collect gambling debts? Maybe yes, maybe no, but Las Vegas District Attorney Steward Bell is filing felony bad-check complaints against casino players who stiff the house on their credit accounts. The Clark County prosecutor has plowed new ground by moving the enforcement of gambling debts to the criminal arena. **Russell comment:** If you play the games in Vegas and you lose big time, don't stiff the casino, and don't try to plead bankruptcy, because DA Bell will drag you to court, regardless.

* *

Big Brother Will Be Watching: Com.Policy, a new surveillance software package from Silverstone, will allow corporations to monitor what their employees are watching on their computer screens. The program keeps a comprehensive log of all programs launched and sends the boss a snapshot of anything on his employee's computer screen as often as every five minutes. Said Silverstone's James Cofano, "This isn't about spying, it's about increasing productivity and helping companies develop and deploy a computer-use policy."

* *

Neither Germany nor France has pared down its deficit to the 3% of GDP required by the EMU rules for a single currency. In the face of 12% unemployment, France is seriously considering raising income taxes on the "wealthy." Said the head of giant Schneider electric equipment company, "This is no way to create new jobs."

* *

If you watch CNBC you certainly are aware of the lovely Miss Maria Bartiromo. *New York* magazine calls her the first "econobabe," while *National Review* calls her "the Sharon Stone of business cable." Never mind, she's very darn good and always a mass of almost explosive energy and excitement.

* *

Collectors and investors who paid multi-billions of dollars for Van Gogh paintings are in a sweat. Scholarly studies have found more than 100 Van Gogh paintings and drawings are fake. The *Art Newspaper* says the alleged fakes include one of the famous "Sunflowers" series, sold by Christie's for a Japanese firm in '87 for $39.5 million, and two self-portraits owned by the Metropolitan Museum of Art in NYC.

* *

From the day of Hong Kong's handover to China, the rains came. Hong Kong was flooded in a few days with an incredible 30 inches of rain, heaviest downpour in 100 years. A landslide at a Buddhist monastery killed a caretaker, causing To Tak-chung, who lives near the monastery, to say, "It's a sign from God." Others, more hopeful, noted that the Chinese word for rain sounds like the one for money.

GOLD: During the great bear markets of 1929-32 and 1937-38 and even 1973-74, it was clear that those people who owned their own private businesses enjoyed a huge advantage over those investors who owned shares of a public business via quoted stocks. The advantage was that private businessmen didn't have to suffer the stomach-churning experience of watching the stocks of their companies going down the drain.

Many subscribers own actual gold in the form of gold coins such as Maple Leafs, Krugerrands, American Eagles, etc. These coins are (or should be) held as insurance against disaster, and I guess it would be better if coin owners didn't even look at the price of gold -- which, unfortunately, has been swooning. Gold coins shouldn't be held for profit, they should be held as **insurance.** Every paper currency in history has ended as a museum curiosity; gold alone has lasted through the centuries as money. The price of gold could be 300 next month, 280 by December and 600 by the year 2000. Obviously, nobody knows, but since gold coins are a form of timeless wealth, they should be held to your very old age and then handed down to the kids or grand-kids.

As for gold stocks, ah, that's a different story. Nobody holds gold shares for insurance, or at least they shouldn't. Gold stocks are a leveraged play on a rising price for gold.

On July 3 we received news that the Australian central bank sold 167 tons ($1.7 billion) of gold. On the news, gold tumbled. By July 7 the August gold futures contract had dropped to an intra-day low of 314.50 and September silver sank to an intra-day low of 4.18. A bad day for metals all around.

It's clear that today's new group of central bank managers are willing to swap gold for paper. Gold-philes call it a "conspiracy;" I call it ignorance or stupidity.

The Founding Fathers of this nation introduced a stable money system that was **most emphatically not based on debt.** The purpose of this system was to avoid the debasement of the nation's money. In other words, the system was created to establish a money that people could trust, a money with **intrinsic value.** In that way the greatest and most insidious tax of all, inflation, could be thwarted. With the creation of the Federal Reserve, the intentions of the Founding Fathers were circumvented.

It is possible that in selling huge quantities of gold, the various central banks are seeking to discredit the metal. That's the conspiracy theory. Of course, the other possibility is that the central bankers have finally swallowed their own propaganda, and they honestly believe they are better off with interest-paying paper than with intrinsic-value gold. I have no way of knowing. I only know what has been happening.

At this point, every gold-follower is wondering whether we have seen the lows for the gold complex or whether there is more downside to come. I'll try to answer that with one chart. Here we see the Phila. Gold/Silver Average (XAU) daily.

What interests me is that we could have seen an "exhaustion gap" on the downside, three days of trading at the lows, and then another gap but this time the gap was to the upside. The result is what's termed an "island reversal." This means that the three low days are separated by gaps on both sides. Island reversals often identify the end of a move (either up or down), and in this case it is hoped that this island reversal with an extreme intra-day low of 85.79 recorded on July 7 marks the end of the bear market in gold. What would confirm that the lows have been seen? If XAU closed above 98, I would say that two-to-one we had seen the lows.

LATE NOTES: The week closed with the PTI and the A-D ratio at new highs (see page 2 chart). This is why the bull remains in the box.

In June the public plowed an additional $18 billion into equity mutual funds, bringing the public's total commitment to equity mutual funds to an incredible **$4 trillion.** Remember, once a person buys a stock or a fund, that money is **spent**, and the owner can then do only one of two things with his stock or fund -- he can **sit on it or he can sell it.** In other words, once the money is invested, the buying power of that money is spent -- it has evaporated.

So I don't take comfort in the fact that the public has placed $4 trillion in equity funds. Ultimately, we're going to see a severe correction or a bear market. At that time $4 trillion in public money will be at risk. When that occurs, I'm afraid that we'll see the reverse effect -- a "wealth meltdown." I said earlier in this Letter that this is the "market that is afraid to look down." I think this tells you why.

Notes: the Dollar Index hit a multi-year high on July 14. This is basically DEflationary, since a high-priced dollar buys more in imported goods, making them cheaper for US buyers. In the next Letter -- a report on the exploding growth of "cheap" (read competitive) Chinese exports.

Despite a gathering mass of exports, stock markets around the world continue to plow upwards. But the **Dow,** in my opinion, is now the engine that powers the world. It is THE barometer that is watched around the world.

NEXT MAILING: July 30, 1997